

Message Text

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ACTION TRSE-00

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 3215

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USADB

PASS TREASURY FOR FREE/SHERK

E.O. 11652: N/A

TAGS: EAID, EFIN

SUBJECT: APPROPRIATE TECHNOLOGY

REF: (A) SHERK/EDMOND TELECON, (B) FREE/KAYLIN TELECON

1. HAVE RECEIVED ADB RESPONSES TO PART I QUESTIONS. PART II
QUESTIONS ARE STILL BEING PREPARED.

2. RESPONSE TO QUESTION 1:

ILLUSTRATIVE EXAMPLES OF SOME OF THE STEPS TAKEN BY THE
BANK TO PROMOTE LIGHT CAPITAL TECHNOLOGY ARE GIVEN BELOW:

WATER SUPPLY, SANITATION AND HOUSING SECTOR

INCREASINGLY, ATTEMPTS ARE BEING MADE TO IDENTIFY,
FORMULATE, DESIGN AND IMPLEMENT PROJECTS IN THE WATER
SUPPLY AND SANITATION SECTOR THAT WILL REACH CENERS OF
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POPULATION IN THE SECONDARY CITIES, PROVINCIAL TOWNS AND
RURAL COMMUNITIES. IN DESIGNING THESE PROJECTS, PARTICULAR
ATTENTION IS PAID TO ENSURE THAT THE TECHNICAL SOLUTION
ADOPTED IS THE MOST COST EFFECTIVE AND EMBODIES THE CHARACTER-
ISTICS OF RELATIVE SIMPLICITY OF OPERATION AND MAINTENANCE.
SOME OF THE RECENT EXAMPLES ARE PROVINCIAL CITIES WATER
SUPPLY PROJECT, PHILIPPINES (DECEMBER 1975), WATER SUPPLY

PROJECT, PNG (NOVEMBER 1976), JOHORE AND KELANTAN WATER SUPPLY PROJECT, MALAYSIA (NOVEMBER 1976) AND REGIONAL WATER SUPPLY PROJECT, KOREA (DECEMBER 1977).

IN THE HOUSING SECTOR, THE SHELTER NEEDS OF THE LOWER INCOME GROUP HAVE RECEIVED SPECIAL ATTENTION AND IN EACH CASE, THE PROJECT FACILITIES WERE DESIGNED IN FULL AWARENESS OF THE BENEFICIARIES' ABILITY TO PAY AND UTILIZATION AS FAR AS POSSIBLE OF INDIGENOUS CONSTRUCTION MATERIALS, SELF-HELP MEASURES AND THE APPROPRIATENESS OF DESIGN STANDARDS IN A GIVEN SITUATION. SOME OF THE RECENT EXAMPLES ARE SECOND PAHANG TENGGARA REGIONAL DEVELOPMENT PROJECT, MALAYSIA (NOVEMBER 1977) AND SHA TIN URBAN DEVELOPMENT (HOUSING) PROJECT, HONG KONG (APRIL 1977). SIMILAR EXAMPLES OF PROJECTS NOW BEING ACTIVELY CONSIDERED BY THE BANK BUT NOT YET APPROVED ARE TRENGGANU TENGAH TOWNSHIP DEVELOPMENT PROJECT, MALAYSIA AND RURAL HOUSING PROJECT, KOREA.

BESIDES, EVEN IN THE CASE OF PROJECTS THAT ARE DESIGNED TO CATER TO THE NEEDS OF PRINCIPAL CITIES AND METROPOLISES AND ARE THEREFORE LIKELY TO BE CAPITAL INTENSIVE BECAUSE OF THE LARGENESS OF SCALE AT WHICH PROJECT FACILITIES MUST BE PROVIDED, ACCOUNT IS INVARIABLY TAKEN OF THE POSSIBILITIES OF SUBSTITUTING LIGHT CAPITAL SOLUTIONS FOR OTHERS, E.G. STANDPIPES INSTEAD OF HOUSE CONNECTIONS, SIMPLER TREATMENT OF POTABLE WATER INSTEAD OF SOPHISTICATED TREATMENT LIMITED OFFICIAL USE

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PROCESSES AND INSTITUTION OF LEAKAGE CONTROL PROGRAMS THAT WILL OBTAIN OR POSTPONE THE NEED FOR ADDITIONAL CAPITAL INVESTMENTS.

THE PROJECTS FINANCED BY THE BANK IN URBAN SECTOR OVER THE LAST TWO YEARS SERVING THE REQUIREMENTS OF SECONDARY CITIES AND RURAL AREAS WILL BENEFIT AN ESTIMATED 3 MILLION PEOPLE, OF WHICH ABOUT A QUARTER RESIDE IN THE RURAL AREAS. FURTHERMORE, THE AVERAGE HOUSEHOLD INCOME OF PROJECT BENEFICIARIES TENDS TO VARY CONSIDERABLY FROM COUNTRY TO COUNTRY, E.G., FROM ABOUT \$60 IN THE CASE OF THE SECOND PAHANG TENGGARA REGIONAL DEVELOPMENT PROJECT TO ABOUT \$200 IN THE CASE OF THE PNG WATER SUPPLY PROJECT. THIS WIDE RANGE OF AVERAGE HOUSEHOLD INCOME IS EXPLAINED IN THIS CASE, IN ADDITION TO THE INTER-COUNTRY DIFFERENCES IN PER CAPITA GNP, BY THE PECULIAR CIRCUMSTANCES SURROUNDING THE SECOND PAHANG TENGGARA REGIONAL DEVELOPMENT PROJECT WHOSE BENEFICIARIES ARE PROJECTED TO COME FROM THE MOST UNDERPRIVILEGED SECTION OF THE POPULATION (THE NATIONAL AVERAGE PER CAPITA INCOME

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TO SECSTATE WASHDC IMMEDIATE 3216

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USADB

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IN MALAYSIA IN 1976 WAS US\$860).

ROAD SECTOR

DURING THE PAST DECADE (196801977), THE BANK FINANCED
28 ROAD PROJECTS IN 12 OF ITS DMCS. OF THESE, ONLY FIVE
PROJECTS RELATED TO MAJOR HIGHWAYS, MOSTLY FINANCED DURING
THE EARLIER PERIOD OF THE BANK'S LENDING OPERATIONS AND
ACCOUNTED FOR A TOTAL OF \$96.5 MILLION OR ONE-FIFTH OF
THE BANK'S ROAD SECTOR LENDINGS. THE REMAINING 23 PROJECTS
FINANCED BY THE BANK MOSTLY CONCERNED THE CONSTRUCTION OR
DEVELOPMENT OF TWO-LANE RURAL TYPE ROADS SERVING RELATIVELY
LESS DEVELOPED AGRICULTURAL AND SEMI-URBAN AREAS IN THE
COUNTRIES CONCERNED. THESE ROADS BETWEEN THEM ABSORBED
LOANS AMOUNTING TO \$352.6 MILLION OR NEARLY 80 PERCENT
OF THE LOANS, AND INCLUDED 13 SECONDARY/FEEDER ROAD
PROJECTS REPRESENTING \$236.2 MILLION OR MORE THAN 50
PERCENT OF THE LOANS.

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THE USE OF APPROPRIATE TECHNOLOGY AND INCOME AND

EMPLOYMENT ASPECTS WERE GIVEN DUE CONSIDERATION IN THE SELECTION AND FORMULATION OF THE AIDED ROAD PROJECTS. IN LABOR-SURPLUS COUNTRIES, MORE LABOR-INTENSIVE METHODS OF CONSTRUCTION WERE ADOPTED TO HELP REDUCE THE INCIDENCE OF RURAL UNDER-EMPLOYMENT, WHILE ECONOMIZING ON THE USE OF SCARCE CAPITAL RESOURCES; AS FOR EXAMPLE, IN THE CASE OF THE KHULNA-MONGLA ROAD PROJECT IN BANGLADESH TAKEN UP LAST YEAR.

THE INCREASING EMPHASIS ON RURAL TYPE ROADS HAS BEEN IN LINE WITH THE DMCS' CONTINUED PRIORITY TO RURAL DEVELOPMENT, NARROWING OF REGIONAL IMBALANCES, AND ENCOURAGEMENT OF PRODUCTION TO MEET BASIC HUMAN NEEDS. IT TAKES INTO ACCOUNT THE CONSIDERATION THAT WITHOUT PROVIDING ADEQUATE MOBILITY WITHIN THE RURAL AREAS AS WELL AS PROVIDING THEM WITH REASONABLE ACCESS TO THE URBAN CENTERS THROUGH THE MAIN HIGHWAY NETWORK, THE ABOVE DEVELOPMENT PROGRAM CANNOT BE REALIZED.

IN 1977, THE BANK ALSO SPONSORED A REGIONAL SEMINAR ON THE APPLICATION OF APPROPRIATE TECHNOLOGY IN ROAD CONSTRUCTION AND MAINTENANCE, IN COLLABORATION WITH THE INTERNATIONAL LABOUR ORGANIZATION (ILO) AND THE SWEDISH INTERNATIONAL DEVELOPMENT AGENCY. THE SEMINAR WHICH WAS ATTENDED AMONG OTHERS BY SENIOR GOVERNMENT OFFICIALS FROM 17 DMCS, EXAMINED VARIOUS ASPECTS OF LABOR-BASED AND INTER-MEDIATE TECHNOLOGIES AND REVIEWED THE CURRENT PRACTICES PREVAILING IN THE COUNTRIES OF ASIA AND THE PACIFIC. ITS MAIN OBJECTIVE WAS TO SHOW HOW RESOURCE ALLOCATION IN THE ROADS SECTOR CAN BE MADE MORE EFFECTIVE BY THE INCLUSION OF LABOR-INTENSIVE METHODS AND TO FORMULATE GUIDELINES LIMITED OFFICIAL USE

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FOR THE PROMOTION OF APPROPRIATE TECHNOLOGY IN THE REGION.

3. RESPONSE TO QUESTION 2: ALTHOUGH BANK IS KEEN ON PROMOTING SMALL-SCALE, DECENTRALIZED, IMPACT MAKING PROJECTS IN ALL SECTORS OF ITS ACTIVITIES APPROPRIATE TO RURAL AREAS. THE NATURE OF THE POWER AND ENERGY SECTOR FINANCED BY THE ADB DOES NOT, HOWEVER, OFTEN PRESENT SUCH PROJECTS: SMALL-SCALE RURAL ENERGY PROJECTS SUCH AS IMPROVED UTILIZATION OF NON-COMMERCIAL FUELS, RESEARCH AND DEVELOPMENT IN THE FIELD OF BIOGAS PRODUCTION, UPGRADING EFFICIENCY OF VILLAGE COOKERS AND DESIGNS OF STOVE, ETC. ARE BEST UNDERTAKEN WITH LOCAL RESOURCES WHICH GENERALLY ARE PROVIDED BY THE HOST GOVERNMENTS. THE BANK LIMITS THE BULK OF ITS FINANCING TO FOREIGN EXCHANGE COSTS OF DEVELOPMENT PROJECTS. HOWEVER, IN THE SOMEWHAT LIMITED OPPORTUNITIES AVAILABLE FOR BANK OPERATIONS IN THIS FIELD, FOLLOWING PROJECTS HAVE RECEIVED/ARE RECEIVING BANK

CONSIDERATION:

(I) IN PNG, BANK IS ASSISTING DEVELOPMENT OF SMALL-SIZED HYDROPOWER FACILITIES (FROM 200 KW TO 800 KW) AT FOUR ISOLATED RURAL CENTERS IN THE THREE ISLAND PROVINCES OF THE COUNTRY. THESE SMALL-SIZED FACILITIES ARE COMMENSURATE WITH THE REQUIREMENTS OF LOCAL NEEDS AND ARE DESIGNED FOR SELF-GOVERNED, SELF-CONTAINED OPERATIONS -- THEREBY MINIMIZING NEED FOR EXTERNAL INPUTS.

(II) UNDER A TECHNICAL ASSISTANCE GRANT TO PNG

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 3217

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USADB

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GOVERNMENT, SERVICES OF A HYDROLOGY/HYDROPOWER PLANNING EXPERT ARE PROVIDED TO THE GOVERNMENT. THE MAJOR OBJECTIVE OF THIS ASSISTANCE IS TO HELP THE AUTHORITIES IDENTIFY AND PLAN DEVELOPMENT OF SMALL-SCALE HYDROPOWER FACILITIES WHEREVER FEASIBLE.

(III) THE BANK IS PROMOTING DEVELOPMENT OF ELECTRIC POWER LOW HEAD AVAILABLE AT INTAKES OR DROPS IN IRRIGATION CANALS TO ELECTIFY ADJOINING RURAL AREAS. A CASE IN POINT IS A LOAN FOR AGRICULTURAL DEVELOPMENT PROJECT IN AFGHANISTAN INCLUDES, AS A COMPONENT, DEVELOPMENT OF SMALLA-SIZED (1.6 MW) HYDROPOWER FACILITY AND PROVISION OF

400 KW OF DIESEL GENERATION. THESE MODEST GENERATION FACILITIES WOULD MEET POWER DEMAND FOR IRRIGATION PUMPING AND WOULD ALSO CATER TO THE REQUIREMENTS OF THE NEIGHBORING RURAL POPULATION. MORE SIGNIFICANTLY, DURING THE WINTER MONTHS WHEN THE POWER REQUIREMENTS FOR PUMPING ARE LOW, INCREASED AMOUNTS OF ENERGY WOULD BE AVAILABLE FOR THE LIMITED OFFICIAL USE

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RURAL POPULATION SUBSTANTIALLY ENHANCING THEIR WELL-BEING.

(IV) UNDER A TECHNICAL ASSISTANCE TO SRI LANKA, OPPORTUNITIES FOR EXTENDING ELECTRIC POWER NETWORK TO RURAL AREAS ARE BEING STUDIED AND WILL BE FOLLOWED UP BY SUITABLE LOAN ASSISTANCE. EXTENSION FROM THE EXISTING GRID SUPPLIES TO THE PROXIMATE RURAL AREAS COULD BE EXPECTED TO BE ACHIEVED AT RELATIVELY MODEST CAPITAL EXPENDITURE.

(V) A LOAN PROJECT FOR DEVELOPING SMALL-SCALE HYDROPOWER FACILITIES (900 KW X 2) IN APIA, W. SAMOA IS BEING CONSIDERED. THE COST OF THE PROJECT WOULD BE AROUND \$3.0 MILLION.

(VI) REHABILITATION AND EXTENSION OF A SMALL SIZE DISTRIBUTION SYSTEM IN BIRATNAGAR, NEPAL IS BEING CONSIDERED FOR A POSSIBLE BANK LOAN. THE PROPOSED PROJECT WOULD STRENGTHEN POWER SUPPLIES TO BIRATNAGAR AND ITS SURROUNDINGS SITUATED IN THE EASTERN AREAS OF THE COUNTRY. THE COST OF THE PROJECT MAY BE AROUND \$3.5 MILLION.

4. RESPONSE TO QUESTION 3: THE BANK HAS NOT YET RECEIVED AN INVITATION TO ATTEND THE UN CONFERENCE OF SCIENCE AND TECHNOLOGY FOR DEVELOPMENT (UNCSTD) THAT IS SCHEDULED TO BE HELD IN 1979. IN VIEW OF THE FACT THAT THE SUBJECT TOPICS FOR UNCSTD ARE OF UTMOST RELEVANCE FOR ITS OPERATIONS, THE BANK WOULD BE MOST INTERESTED TO PARTICIPATE IN THAT CONFERENCE.

THE BANK HAS CLOSELY FOLLOWED THE DISCUSSION THAT TOOK PLACE AT THE FIRST REGIONAL PREPARATORY MEETING FOR UNCSTD WHICH WAS HELD UNDER THE AUSPICES OF ESCAP AT BANGKOK FROM 8 TO 12 DECEMBER 1977, AND HAS KEPT ITSELF POSTED ON RELEVANT LIMITED OFFICIAL USE

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DEVELOPMENTS. IN VIEW OF ITS INTEREST IN THE MATTER, THE BANK EXPECTS TO ATTEND THE FORTHCOMING SECOND REGIONAL PREPARATORY MEETING FOR UNCSTD SCHEDULED TO TAKE PLACE

IN JULY 1978, AND OTHER SUBSEQUENT MEETINGS THAT MAY BE HELD UNDER ESCAP AUSPICES.

5. RESPONSE TO QUESTION 5; THE BANK'S PARTICIPATION IN THE UNCSTD, IF INVITED, IS LIKELY TO BE AS AN OBSERVER AND IN A CONSULTATIVE CAPACITY. THE BANK'S OPERATIONAL EXPERIENCE IN RESPECT OF THE ISSUES WHICH WILL FEATURE PROMINENTLY IN THE CONFERENCE COULD CONSTITUTE IMPORTANT BACKGROUND INFORMATION FOR THE CONFERENCE.

THE FIVE SUBJECT AREAS FOR UNCSTD SELECTED FOR THE ESCAP REGION IN THE FIRST REGIONAL PREPARATORY MEETING ARE: (I) FOOD AND AGRICULTURE; (II) NATIONAL RESOURCES; (III) ENERGY; (IV) HEALTH AND NUTRITION; AND (V) INDUSTRIALIZATION. BANK'S OPERATIONAL EXPERIENCE DEALING, INTER ALIA, WITH FOOD AND AGRICULTURE, ENERGY, INFRASTRUCTURE DEVELOPMENT, USE OF APPROPRIATE TECHNOLOGY AND TECHNICAL EDUCATION AND TRAINING WILL BE OF RELEVANCE IN POSSIBLE BANK-PARTICIPATION IN THE FORTHCOMING SECOND REGIONAL PREPARATORY MEETING. THE ECONOMIC OFFICE STAFF CONCERNED WITH APPROPRIATE TECHNOLOGY IS EXPECTED TO ATTEND THESE MEETINGS. SINCE BANK'S PARTICIPATION IS ONLY AS AN OBSERVER, THE EXTENT OF ITS INVOLVEMENT WILL DEPEND UPON WHETHER IT IS CALLED UPON TO CONTRIBUTE ANY PAPERS FOR THE MEETING. ANY WRITTEN CONTRIBUTION MADE BY THE PARTICIPANT WILL BE WITH FULL COOPERATION OF

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TO SECSTATE WASHDC IMMEDIATE 3218

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USADB

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THE OPERATIONAL DEPARTMENTS WHICH ARE RESPONSIBLE FOR THE FORMULATION AND IMPLEMENTATION OF BANK PROJECTS.

6. RESPONSE TO QUESTION 6: THE BANK ATTACHES URGENCY TO THE USE OF TECHNOLOGY APPROPRIATE FROM THE POINT OF VIEW OF PROJECTS AND/OR COUNTRY CONSIDERATIONS. CONSEQUENTLY, PROJECTS WHICH ARE ASSISTED BY THE BANK ARE FORMULATED AND IMPLEMENTED WITH DUE REGARD TO THEIR ADAPTABILITY TO CONDITIONS PREVAILING IN COUNTRIES CONCERNED, SUCH AS LABOR SUPPLY, NEED FOR ADDITIONAL EMPLOYMENT GENERATION, INVESTMENT COST PER WORKER, SUPPLY OF LOCAL MATERIALS, NATIONAL/REGIONAL DEVELOPMENT OBJECTIVES AND SOCIAL IMPACT OF ASSISTED PROJECTS.

THE BANK DOES NOT HAVE A FORMAL COMMITTEE TO DEAL EXCLUSIVELY WITH ISSUES PERTAINING TO THE USE OF LIGHT CAPITAL TECHNOLOGY. THESE ISSUES, HOWEVER, ARE CAREFULLY EXAMINED AND REVIEWED AT VARIOUS STAGES OF PROJECT LIMITED OFFICIAL USE

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PREPARATION AND PROCESSING - WHICH IS REFLECTED IN THE ADOPTION OF SUCH TECHNOLOGY FOR PROJECTS ASSISTED BY THE BANK. THERE IS A SMALL UNIT IN THE ECONOMIC OFFICE WHICH KEEPS ITSELF INFORMED ON DEVELOPMENTS RELATING TO LIGHT CAPITAL TECHNOLOGY, CARRIES DEVELOPMENTS RELATING TO LIGHT CAPITAL TECHNOLOGY, CARRIES OUT SUBSTANTIVE RESEARCH, IF REQUIRED, ON SUCH ISSUES VIS-A-VIS PROJECTS CONSIDERED FOR BANK FINANCING, AND DISSEMINATES RELEVANT INFORMATION TO CONCERNED PROJECTS STAFF AT PROJECT PREPARATION AND PROCESSING STAGES.

ASPECTS RELATING TO THE USE OF LIGHT CAPITAL TECHNOLOGY ARE ANALYZED, WHERE RELEVANT, UNDER THE BANK'S TECHNICAL ASSISTANCE OPERATIONS DEALING WITH PROJECT FEASIBILITY STUDIES. AT THE STAGE OF PROJECT APPRAISAL, THE CONCERNED PROJECT STAFF TAKE ACCOUNT OF THESE ASPECTS AND, DURING PROJECT SCRUTINY, THESE ARE FURTHER EXAMINED BY THE UNIT IN THE ECONOMIC OFFICE AND REVIEWED BY THE LOAN AND TECHNICAL ASSISTANCE COORDINATION COMMITTEE CHAIRED BY THE PRESIDENT.

7. RESPONSE TO QUESTION 7: THE METHODOLOGY USED IN THE BANK FOR APPRAISING PROJECTS INVOLVES CONSIDERATIONS PERTAINING TO THE ECONOMIES OF TECHNOLOGICAL CHOICE. THESE CONSIDERATIONS ARE THE FOLLOWING:

(I) ASSESSMENT OF PROJECTS FROM THE POINT OF VIEW OF MACRO-ECONOMIC CONSIDERATION PRECEDES ECONOMIC APPRAISAL AT THE PROJECT LEVEL. SUCH ASSESSMENT EXAMINES, INTER ALIA, THE PROJECTS'S IMPORTANCE VIS-A-VIS NATIONAL/REGIONAL/ SECTORAL PRIORITIES AND ITS ATTRACTIVENESS FROM THE POINT OF VIEW OF ATTERNATIVE USE OF RESOURCES IN COUNTRIES CONCERNED.

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(II) USE OF SHADOW WAGE RATE, WHERE RELEVANT AND FEASIBLE, FOR VALUING COST OF UNSKILLED LABOR IN ESTIMATING ECONOMIC INTERNAL RATE OF RETURN (EIRR).

(III) VALUATION OF PROJECT COSTS AND BENEFITS IN TERMS OF SHADOW EXCHANGE RATES, WHERE APPROPRIATE, IN ESTIMATING EIRR.

(IV) COST EFFECTIVENESS ANALYSIS PARTICULARLY WHEN A PROJECT'S INTERNAL RATE OF RETURN CANNOT BE ESTIMATED ON AN "INCREMENTAL" BASIS DUE TO INDIVISIBILITY AND/OR INAPPLICABILITY ANALYSIS IS ALSO GENERALLY CARRIED OUT FOR THE PURPOSE OF DECIDING UPON THE LEAST COST PROJECT, OR DESIGN AMONG THE VARIOUS ALTERNATIVES THAT MAY BE AVAILABLE TO ATTAIN THE SAME BENEFIT.

IN APPLYING THE CONSIDERATIONS REFERRED TO ABOVE, ATTENTION IS PAID TO SPECIFIC PROJECT AND /OR COUNTRY CIRCUMSTANCES. THE BANK IS EQUALLY CONCERNED ABOUT THE INTERACTIONS BETWEEN PRODUCTION TECHNOLOGIES AND SOCIO-CULTURAL SYSTEMS, AND THE NEED TO SYNTHESIZE TECHNOLOGY WITH TRADITIONAL INSTITUTIONS IN ITS DEVELOPING MEMBER COUNTRIES. IN RECOGNITION OF ITS RELEVANCE IN COUNTRIES CONCERNED, THE BANK HAS RECENTLY APPROVED TECHNICAL ASSISTANCE FOR PIONEERING RESEARCH ON TRADITIONAL SOCIO-CULTURAL SYSTEM AND MODERN ECONOMIC GROWTH IN DEVELOPING COUNTRIES IN ASIA AND THE PACIFIC.
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